MICC

The Mortgage Insurance Company of Canada

1966
ANNUAL
REPORT

BOARD OF DIRECTORS

T. L. Brock
Assistant to the President
Aluminum Company of Canada, Ltd.
Montreal, Quebec

Dudley Dawson
Senior Vice-President
Greenshields Incorporated
Montreal, Quebec

W. J. Dixon
Deputy General Manager
The Bank of Nova Scotia
Toronto, Ontario

Gardner English
President and General Manager
The Mortgage Insurance Company of Canada
Toronto, Ontario

W. S. Harvey
Senior Vice-President — Finance
Air Canada
Montreal, Quebec

C. W. Jameson
Joint General Manager
The Bank of Nova Scotia
Toronto, Ontario

Max H. Karl
President and Treasurer
Mortgage Guaranty Insurance Corp.
Milwaukee, Wisconsin, U.S.A.

Peter Kilburn
President
Greenshields Incorporated
Montreal, Quebec

Paul Leman
Executive Vice-President
Aluminum Company of Canada, Ltd.
Montreal, Quebec

James H. McDougall
General Manager
Greenshields Incorporated
Montreal, Quebec

J. C. Neely
President
Alcan Design Homes Ltd.
Montreal, Quebec

F. William Nicks
Chairman of the Board and President
The Bank of Nova Scotia
Toronto, Ontario

G. D. Sutton
Vice-President and General Manager
Canadian Enterprise Development Corporation Ltd.
Montreal, Quebec

J. L. Toole
Vice-President, Accounting and Finance
Canadian National Railways
Montreal, Quebec

G. J. van den Berg
Vice-President — Finance
Canadian Pacific Railway Company
Montreal, Quebec

EXECUTIVE OFFICERS

Chairman of the Board
F. William Nicks

President and General Manager
Gardner English

Vice-President
C. W. Jameson

Vice-President
Reginald T. Ryan

Secretary-Treasurer
Ronald C. Brown

PRESIDENT'S REPORT

The Mortgage Insurance Company of Canada introduced private mortgage insurance in 1964, providing a plan by which the Canadian home owner or purchaser could secure a high-ratio mortgage at a moderate rate of interest. The company has now completed two and one-half years of operations in this new field and its services have enabled 11,000 Canadian families to enjoy home ownership with economical mortgage financing tailored to their needs and to their household budgets.

The MICC insured mortgage plan makes it possible for a home owner to borrow up to 87½% of the appraised value of his house at an interest rate only slightly higher than conventional interest rates in his community. Home owning families thus avoid the high interest rates and burdensome payments usually associated with second mortgage financing. A further advantage is that the borrower deals with a single, responsible financial institution, usually through a branch office in his own community.

Mortgage loans under the MICC plan are provided by 31 approved lenders which comprise a majority of the institutional mortgage lenders in the country. These companies include life insurance companies and trust and loan companies. The widespread branch office system of this group affords maximum convenience and professional financial counsel to the home owner.

In addition to the facilities for high ratio loans offered by the company, MICC offers insurance on conventional mortgage loans made at a ratio of loan to value of 75%. Investments in loans of this type are especially suited to pension funds and are processed by the approved lenders mentioned above and two chartered banks on an agency basis. Commitments have been issued for some $46,000,000 on mortgages of this class to date. The growth in assets of pension funds in recent years has been both rapid and substantial. The interest of pension fund trustees in mortgage investment is growing and MICC looks forward to providing insured mortgage investment to this important area of the capital market.

Operations

Mortgage insurance commitments were issued in the gross amount of $67,700,000 in 1966, and insurance contracts written, covering loans actually

MICC

closed by approved lenders during the year, totalled $63,800,000. Insurance in force at year-end amounted to $146,000,000.

Gross premiums on business put in force during the year amounted to $1,033,000 compared with $1,330,000 in 1965. Single premium insurance requires that a portion, only, of cash premiums written is drawn into income in the current year. The balance of premiums written is credited to unearned premium reserve and is drawn into income in succeeding years as earned premium. The formula and method of determination of earned premiums is prescribed by the Superintendent of Insurance. Earned premiums attributable to 1966 operations totalled $264,165 compared with $172,526 in 1965.

In addition to Unearned Premium Reserve, a Policy Reserve is established by retention of 50% of earned premium after the second policy year on all policies issued. This reserve provides an additional safeguard of the ability of the company to meet future claims.

Operating net income of $182,930 after all expenses, claims and income taxes resulted from company operations for the year. The comparable figure for 1965 was $82,345.

The company's investments have been channelled chiefly into bonds and preferred stocks. The investment portfolio as at December 31, 1966, distributed by class, is shown as follows:

Government of Canada and Government Guaranteed bonds	$1,390,000
Provincial and Municipal Bonds	2,733,473
Corporate Bonds	477,700
Preferred Stocks	744,617
	$5,345,790

Average rate of return on investments for the year, after investment expenses, was 5.40% compared with 5.05% in 1965.

Underwriting & Claims

An important element in the underwriting of mortgage insurance is the capability of the individual mortgage borrower to carry his obligation. Our experience in this respect has been very favourable with the average ratio of mortgage payment to income of individual borrowers ranging between 20% and 21% since commencement of operations. The quality of borrowers as measured by employment history and stability of income remains high. Ratio of defaults to insured mortgages has not exceeded 1/2 of 1%, which experience compares favourably with that of the mortgage industry at large. Average loan committed for insurance during the current year was $14,600 on existing construction and $19,800 on new construction.

Mortgage insurance claims paid or in course of settlement during the year amounted to $113,942. The proceeds from the sale of properties acquired in these claims together with the appraised values on those properties held at the end of the year amount to $100,045 reducing the net claim cost to $13,897. Level of claims was moderate due to favourable economic climate and high level of employment as well as to careful underwriting of risks.

Capital Structure

During the year under review the authorized capital of the company was increased from 40,000 to 50,000 shares. Additional payment was made by shareholders on uncalled subscriptions to capital stock in the amount of $1,000,000. At the year end paid-in capital stood at $2,000,000 and contributed surplus and retained earnings at $958,223 representing a total shareholders' equity of $2,958,223.

Economic Conditions and the Mortgage Market

The year 1966 was generally a year of prosperity and full employment for Canada and most coun-

tries of the western world. Against the background of this favourable business climate a major problem of credit stringency which had commenced in 1965 grew to substantial proportions. Interest rates for all classes of credit rose to levels unprecedented for many decades and the supply of loanable funds available from all lending sources was under increasing demand pressures — "tight money" was the order of the day.

It is not surprising that mortgage credit was one of the segments of the capital market which experienced high rates and shortage of funds. Residential building construction was seriously hampered by the scarcity of mortgage money both in Canada and the United States and the number of housing units constructed declined by 22% in Canada and 20% in the United States.

Since the business of The Mortgage Insurance Company of Canada is originated through the lending activities of its approved lenders, the buoyancy of new business which developed in 1965 was arrested to a considerable degree in 1966. Commitments for insurance declined from $86,000,000 to $67,700,000. However, in light of the unprecedented tightness of mortgage credit, the level of new business written can be considered satisfactory.

Outlook

The pressures on credit supply and consequent high level of interest rates existing through 1966 seem likely to persist for a considerable period into the year 1967. The principal cure will be the closing of the gap between funds available for investment —chiefly personal savings, retained corporate earning and import capital — and demand for these funds for the formation of new private and public capital facilities. Some movement in the direction of slow-down in capital formation in both the private and public sectors has already taken place. It seems probable that this trend will continue and gradually the supply of capital funds will more closely match demand for them.

This movement should gradually improve the supply of funds available for mortgage investments. Residential mortgage loans produce the highest interest yield of any high grade security, and relief from excessive competition in the market place between mortgage loans and other forms of institutional investment should restore the volume of mortgage funds available to the pre-1966 level.

Legislation enabling the chartered banks to become more extensive mortgage lenders is expected early in the new year, and it seems probable that they will be in a position to make a significant contribution to the supply of mortgage funds in the years ahead. The past five years have witnessed the formation and growth of a number of new institutions for the gathering of savings deposits. These institutions can normally be expected to channel an important part of their investments into mortgage loans. Pension funds are exhibiting an increased interest in mortgage investment. Thus it seems probable that in the late 1960's there will be an adequate supply of investment funds from private and government sources to create upwards of 200,000 new housing units per year that Canada will need in its continuing growth.

Your company looks to the future with confidence. The MICC insured mortgage plan has already demonstrated that it meets the house finance needs of thousands of Canadian families. A rising, prosperous population and an increase in available mortgage funds should provide the base for further growth of The Mortgage Insurance Company of Canada.

Gardner English

President and General Manager

The Mortgage Insurance Company o

BALANCE SHEET AS AT DECEMBE

ASSETS

	1966 $	1965 $
CURRENT ASSETS		
Cash	104,464	84,151
Premiums receivable	17,770	51,607
Interest accrued and sundry receivables	61,242	40,218
	183,476	175,976
SPECIAL REFUNDABLE TAX	4,261	—
INVESTMENTS		
Bonds, debentures and stock, at market (note 3) (cost 1966 — $5,345,790; 1965 — $3,416,200)	5,117,600	3,351,500
Mortgages (note 2)	32,092	—
Real estate acquired on claim settlement	30,600	—
	5,180,292	3,351,500
	5,368,029	3,527,476

SIGNED ON BEHALF OF THE BOARD

F. WILLIAM NICKS, Director.

GARDNER ENGLISH, Director.

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R 31, 1966

LIABILITIES

	1966 $	1965 $
CURRENT LIABILITIES		
Provision for claims	4,196	—
Accounts payable and accrued liabilities	7,626	12,617
Premium taxes	10,553	20,180
Income taxes	104,083	40,952
	126,458	73,749
RESERVES		
Reserve for unearned premiums	2,264,364	1,514,129
Additional policy reserve	18,984	—
	2,283,348	1,514,129

SHAREHOLDERS' EQUITY

	1966 $	1965 $
CAPITAL STOCK (note 1)		
Authorized — 50,000 shares of the par value of $100 each		
Issued and partly paid — 40,000 shares	4,000,000	4,000,000
Uncalled subscriptions	2,000,000	3,000,000
Paid-up capital	2,000,000	1,000,000
SURPLUS	958,223	939,598
	2,958,223	1,939,598
	5,368,029	3,527,476

The Mortgage Insurance Company of Canada

STATEMENT OF SURPLUS

For the Year Ended December 31, 1966

	1966 $	1965 $
EARNED SURPLUS		
Balance — beginning of year	43,884	(20,080)
Net earnings for the year	182,930	82,345
Profit (loss) on sale of securities	(815)	829
Fixed assets written off (note 3)	—	(19,210)
Balance — end of year	225,999	43,884
CONTRIBUTED SURPLUS		
Balance — beginning of year	895,714	960,414
Write-down of investments to quoted market value (note 3)	163,490	64,700
Balance — end of year	732,224	895,714
SURPLUS — END OF YEAR	958,223	939,598

NOTES TO FINANCIAL STATEMENTS

1. CAPITAL STOCK

   The authorized capital was increased from 40,000 shares to 50,000 shares on June 15, 1966. It may further be increased to 150,000 shares of the par value of $100 each. The company has granted options in respect of 3,000 shares exercisable on or before June 1, 1969 at $125 per share.

2. MORTGAGES

   Mortgage assets arise from resale of real estate acquired through payment of claims.

3. CHANGE IN ACCOUNTING PRACTICE

   In 1966 the company amended its accounting practice to present its balance sheet in a form similar to the return that it is required to file with the Department of Insurance. Accordingly, investments have been written down to quoted market values by a charge to contributed surplus and fixed assets have been written off by a charge to earned surplus.

   In order to permit a comparison, the 1965 figures have been restated to give effect to the change. The change has no material effect on the net earnings for the year.

The Mortgage Insurance Company of Canada

STATEMENT OF EARNINGS

For the Year Ended December 31, 1966

	1966 $	1965 $
INCOME		
Premiums earned	264,165	172,526
Application fees	58,396	78,963
Investment income after investment expenses	241,720	139,825
Total Income	564,281	391,314
EXPENSES		
Claims incurred	13,897	—
Insurance underwriting and policy issuance expenses	93,161	104,832
Premium taxes	20,668	26,784
Other operating expenses	116,625	133,053
Total Expenses	244,351	264,669
	319,930	126,645
PROVISION FOR INCOME TAXES	137,000	44,300
NET EARNINGS FOR THE YEAR	182,930	82,345

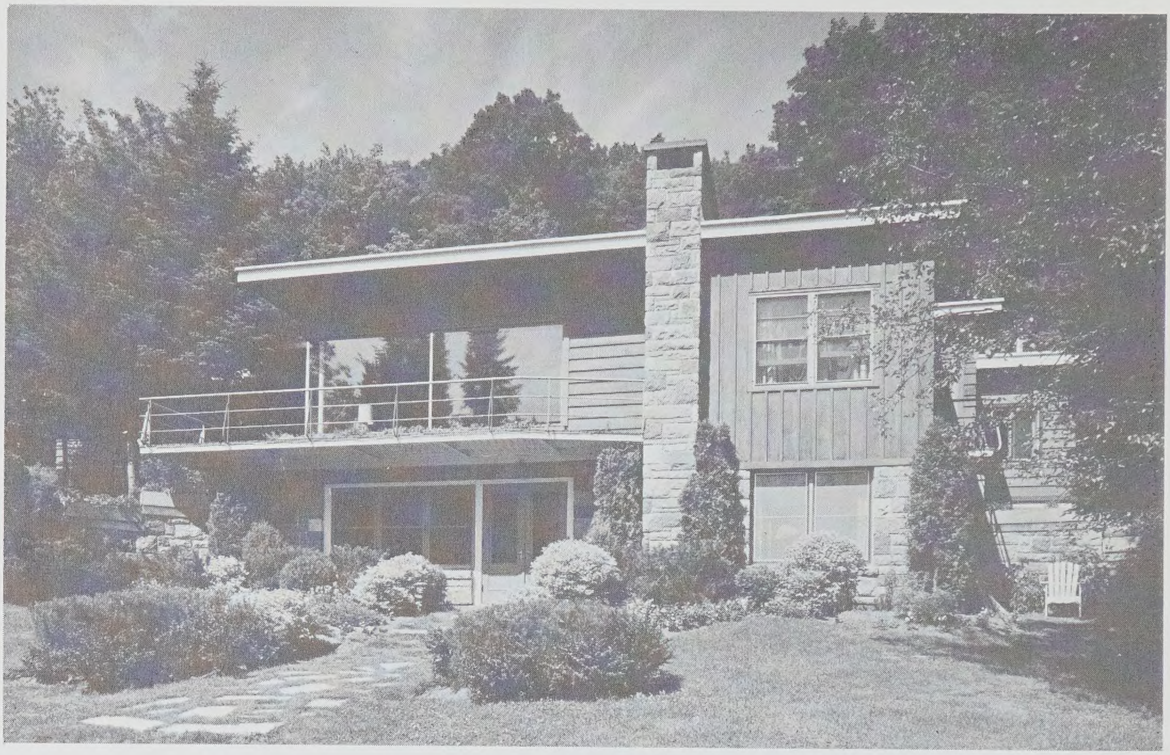
AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of The Mortgage Insurance Company of Canada as at December 31, 1966 and the statements of earnings and surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of earnings and surplus, when read in conjunction with the notes thereto, present fairly the financial position of the company as at December 31, 1966 and the results of its operations for the year ended on that date, in accordance with accounting practices appropriate to the insurance laws of Canada applied on a basis consistent with that of the preceding year, except for the change referred to in note 3, in which we concur.

McDONALD, CURRIE & CO.,
Chartered Accountants.

Toronto, January 12, 1967



British Columbia

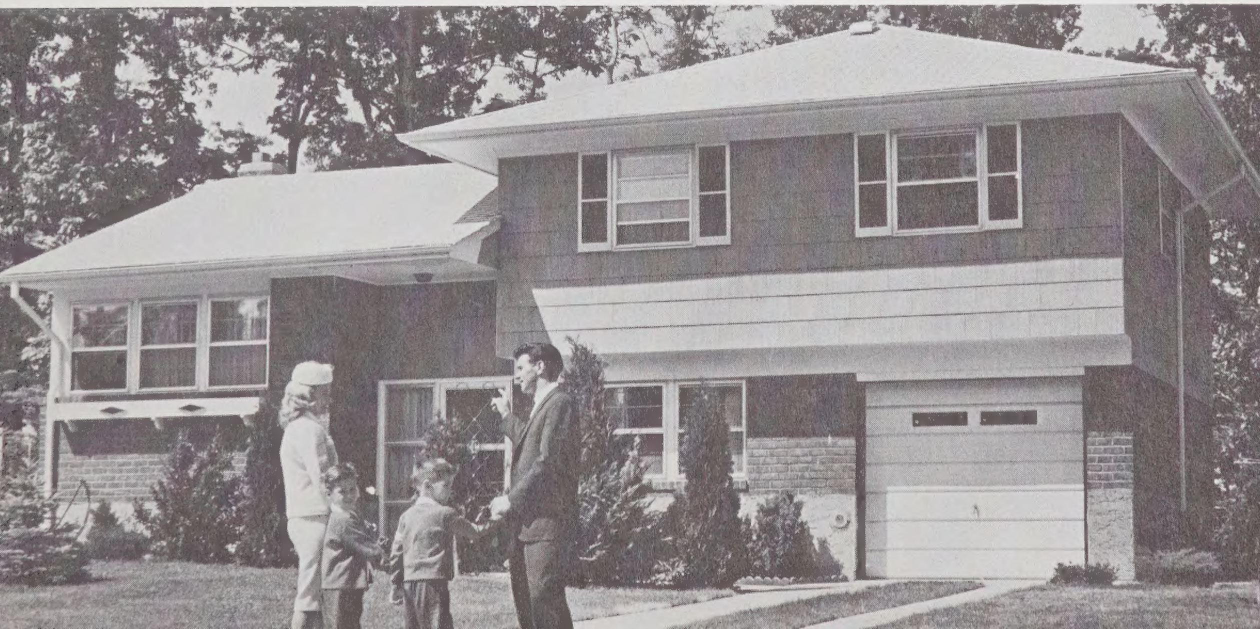
Nova Scotia

CENTRAL COVENANTS LIMITED

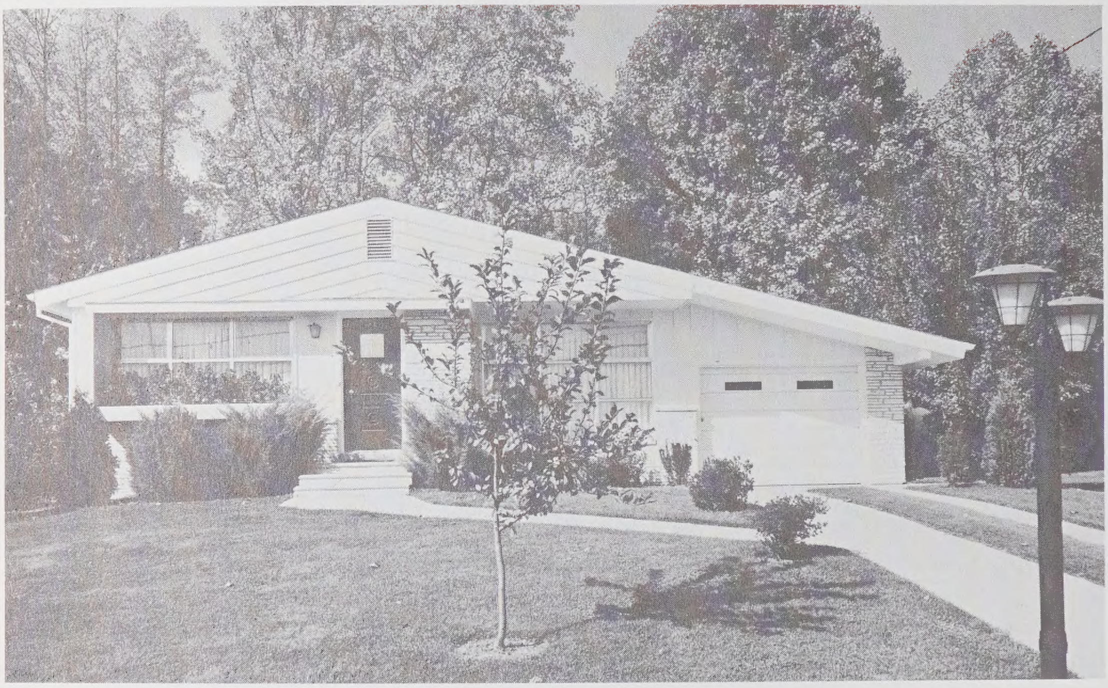
First mortgage loans insured under the MICC high ratio plan are joint loans made by the Approved Lender and Central Covenants Limited. Normally, the Approved Lender is limited by statute to mortgages not exceeding 75% of value. On MICC loans, the senior portion of the loan (not exceeding 75%) represents the investment of the Approved Lender and the junior portion is held by Central Covenants Limited. The policy of mortgage insurance issued by The Mortgage Insurance Company of Canada, in effect, guarantees the junior holder against loss through foreclosure.

MICC APPROVED LENDERS

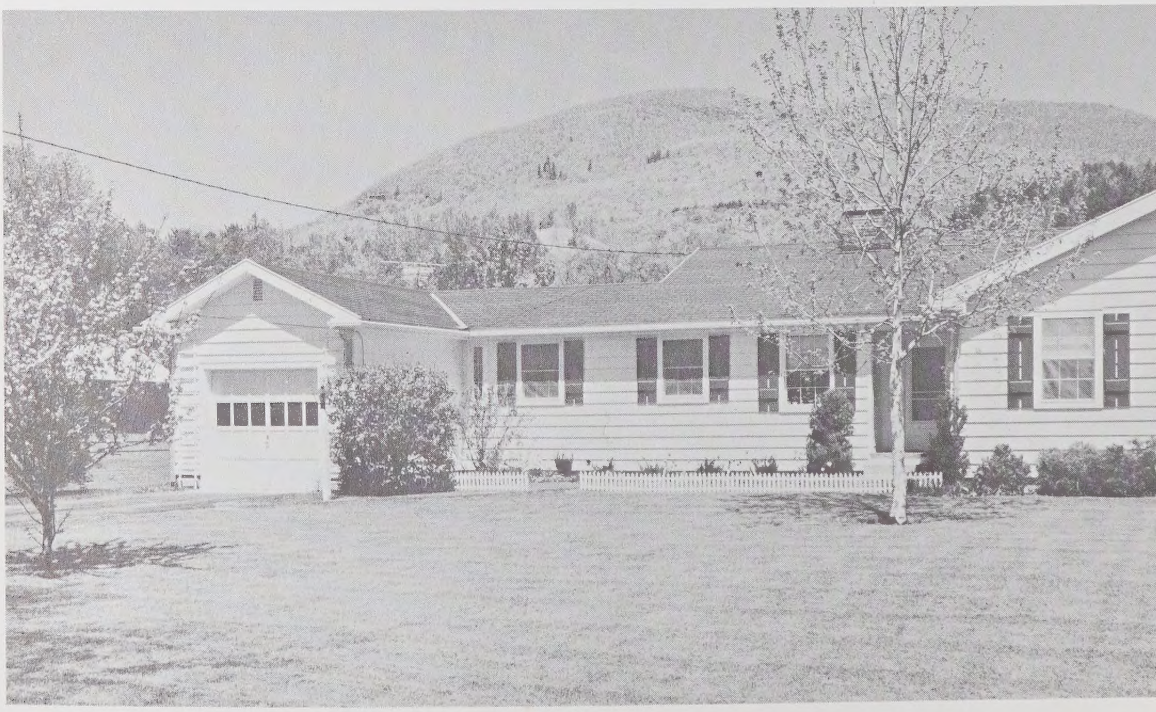
The Canada Life Assurance Company
The Canada Trust Company — Huron & Erie Mortgage Corporation
Canadian Premier Life Insurance Company
Confederation Life Association
Crown Life Insurance Company
The Dominion Life Assurance Company
The Eastern Canada Savings and Loan Company
Eastern & Chartered Trust Company
Equitable Life Insurance Company of Canada
The Excelsior Life Insurance Company
Fidelity Life Assurance Company
The Imperial Life Assurance Company of Canada
Industrial Life Insurance Company
Investors Syndicate Limited
The Laurentian Mutual Assurance Company
London Life Insurance Company
Montreal Trust Company
The Mutual Life Assurance Company of Canada
National Trust Company Limited
North American Life Assurance Company
The Northern Life Assurance Company of Canada
Northland Trust Company
Norwich Union Life Assurance Society
Nova Scotia Savings & Loan Company
The Ontario Loan and Debenture Company
Rowcliffe Investments Limited
Standard Life Assurance Company
Sun Life Assurance Company of Canada
The Waterloo Trust and Savings Company
The Western Savings and Loan Association



TYPICAL HOMES FINANCED BY THE MICC MORTGAGE PLAN

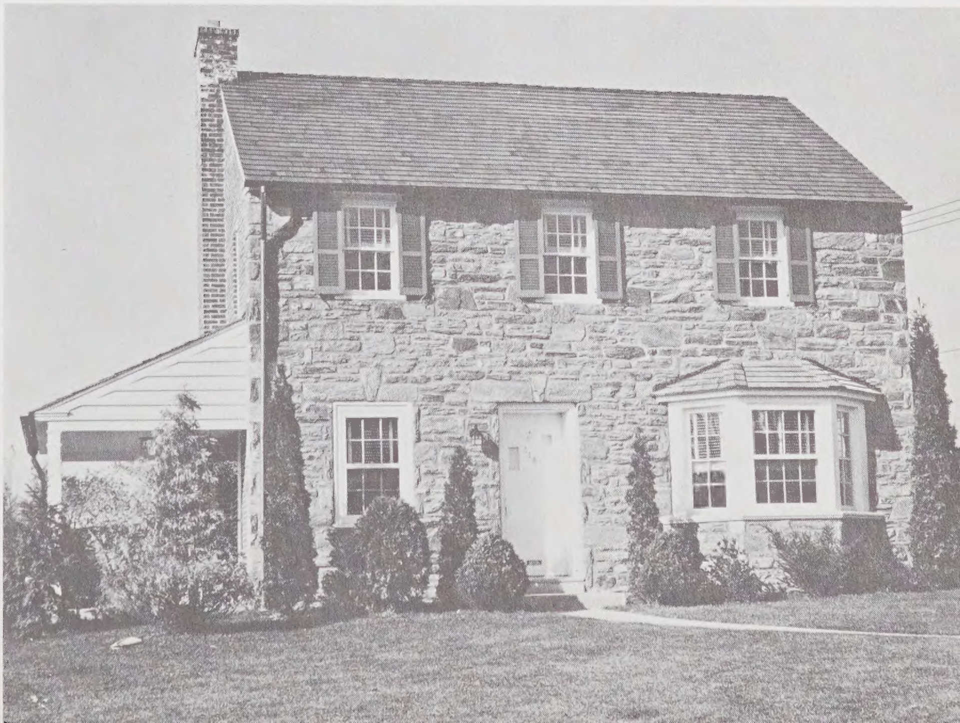


Manitoba



Alberta

Ontario



The Mortgage Insurance Company of Canada

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